

OPERATING BUDGET REVIEW

**Agenda Item D-4
November 13, 2000**

At its July 17 meeting, the Council adopted a recommendation calling for a review of the operating budget guidelines used in developing the Council's 2000-02 budget request. The Council's action directed its Finance Committee to conduct the review. In addition, the Council requested that the Strategic Committee on Postsecondary Education (SCOPE) establish a subcommittee to advise the Council during the review process.

At a meeting August 31, the Council's Finance Committee established the parameters for the Council's operating budget review by focusing on the benchmark system (development process and base/55th percentile), operating incentives (trust funds and special incentives), and capital (space planning guidelines and research space). SCOPE convened September 6 and authorized a 12-member subcommittee to undertake SCOPE's review. September 18, the Council again considered the operating budget review as an agenda item.

Since the last Council meeting, several important meetings have taken place on the operating budget review.

- October 4 meeting of the institutional presidents with the Council president and Dennis Jones, president of the National Center for Higher Education Management Systems
- October 4 meeting of the SCOPE Operating Budget Review Subcommittee with Dennis Jones
- October 4 meeting of the Council Finance Committee
- October 19 meeting of the Chief Budget Officers
- October 31 workshop with the institutional presidents, Council president, and Dennis Jones
- November 1 meeting of the SCOPE Operating Budget Review Subcommittee

In each of these sessions, the state government elected and appointed leadership of the executive and legislative branches, the Council membership, the institutional leadership, and the Council staff have continued to work to achieve consensus on the postsecondary education budget process for the 2002-04 biennium.

At the October 31 meeting with the institutional presidents and Council president, Dennis Jones facilitated a four-hour workshop where the major issues of the Operating Budget Review were discussed in detail. What emerged from that session was a "Points of Consensus" document (attached) which establishes a set of principles to help guide the 2002-04 postsecondary education budget process. This document was reviewed with the SCOPE Operating Budget Review Subcommittee November 1. There was general agreement from most Subcommittee members that the consensus document represented significant progress for moving forward the Operating Budget Review.

Finally, Council members have been provided, under separate cover, the Operating Budget Review Data Book to assist in this process.

Staff Preparation by Ron Carson

Points of Consensus Among Presidents and Council Staff Concerning the 2002-04 Funding Methodology

October 31, 2000

I. Base Funding

Provision 1: In recognition of the Commonwealth's commitment to an excellent system of postsecondary education and postsecondary education's linkage to economic development growth, recommendations for funding to be appropriated to the base budgets of the universities and the Kentucky Community and Technical College System will provide the following:

- a) Base funding increases will include an inflationary increase as provided to other agencies of state government.
- b) Maintenance and operation funds to support new educational and general buildings approved by the General Assembly.
- c) Changes in debt service requirements for institutional bond issues supported from state appropriations and to be paid by the institution.
- d) The benchmarking concept should be retained as a procedure for establishing base levels of funding for the institutions. However, the current model will be supplemented and strengthened. Institutions will have the opportunity to negotiate replacement of up to five institutions on their current lists. The benchmark method is one of several acceptable approaches to creating a starting point to determine the base; however, it should be augmented by addressing the differential costs related to new undergraduate and graduate enrollments.

Provision 2. Tuition should not be an offset against general fund appropriations. Additional discussion needs to occur about the role of tuition in educational and general funding.

Provision 3. The Council on Postsecondary Education and the institutions should identify mandated public service and research programs having no student enrollments or instructional function. These will be factored out of benchmark funding evaluations.

II. Trust Funds

Trust funds should be maintained. The Enrollment Growth and Retention Trust Fund should recognize differentiated costs of undergraduate and graduate instruction. Funding amounts should be based on benchmark funding objectives and upon enrollment and retention objectives negotiated with each institution.

III. Special and Meritorious Funding

Funding of special and meritorious initiatives may be designated by the Council on Postsecondary Education for flow-through funding, however, guidelines will be promulgated well in advance and evaluations of all requests from the institutions will be open and objective.

IV. Endowment Trust Fund

The Endowment Trust Fund should be retained at least through 2002.

V. Space Planning Guidelines

The space planning guidelines will be further reviewed as to coding of research space, quality of space, and fitness for purpose.